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ABSTRACT

California's public schools received a $2.2 billion increase in revenue for the 1998-99 school year. An analysis of the overall funding for California's K-12 education in 1998-99, including what districts must do to respond to new laws, is provided. Around 82 percent of California's education dollars are controlled by state lawmakers, and the system for sharing money among school districts has become increasingly complicated. Each district receives general-purpose money based on a per-pupil revenue limit, and each district has its own revenue limit. This complexity is increased by the designation of over one-third of state funding and nearly one-half of funding increases for specific purposes. Major changes in laws that affected Average Daily Attendance accounting, the mandatory 180-day student year, special education, and social promotion all influenced the way that allocations were administered. Some of the state's existing categorical program received major funding boosts, such as class-size reduction, instructional and library materials, school facilities, child care and preschool, technology, teacher recruitment, credentialing, professional development, safety and student support services, and school-site grants. Fiscal and policy issues that still require attention include the state's teacher shortage, professional development, and teacher evaluations. (RJM)

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REPORT

October 1998

School Finance 1998-99

Budget Increase Just One Part of the Story

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Clarifying Complex Education Issues

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REPORT

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Budget Increase Just One Part of the Story

California's public schools can expect an additional $2.2 billion in revenue this year. But many new laws will affect individual school districts — and the amount of funding they each receive — very differently.

How much more money will California's public schools get for the 1998-99 school year? The simple answer from the state capital is about $2.2 billion, compared to a $2.4 billion increase in 1997-98. The reality for individual school districts, however, is far more complex.

While Governor Wilson and the California Legislature provided a sizable increase for K-12 education, they also enacted new laws and programs that affect individual school districts very differently. Well into the new school year, local school officials were still trying to sort out how much funding they could expect, which programs their district could qualify for, and what operational changes would be necessary in order to secure that funding.

Along with providing increases for the cost of living and student enrollment growth, lawmakers added incentives in several specific areas, including a dramatic increase in funding for instructional materials. They also created some new programs outside the K-12 classroom, for example for after-school activities and pre-school. In addition, districts faced major operational challenges adapting to new requirements for how they provide staff development, how they teach students learning English, how they count students, how they serve students who are not achieving, and how they receive money for Special Education.

This report looks at the overall funding for California's K-12 education system for 1998-99. That includes the amount of money provided and the expenditure categories into which it is allocated. It also examines what districts must do to respond to new laws, and it looks at how lawmakers' actions will bring additional revenues into districts in varied ways.

INSIDE THIS REPORT

How much funding K-12 education will receive	1
How the funds are allocated	2
Major changes in law affecting local schools	4
Major categorical programs: what's new, what's changed	8
Fiscal and policy issues awaiting schools	11

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How much funding K-12 education will receive

The total projected revenue for California K-12 education in 1998-99 is $37.9 billion. This money comes from several sources, as illustrated in Figure 1. The lion's share, about 82% or $31.1 billion, is controlled by state lawmakers under Proposition 98; this amount increased 6.5% over 1997-98. It will, however, have to cover an additional 100,000 students, according to estimates from the Legislative Analyst's Office (LAO). The net increase per-pupil is thus about $283 or 5.2%. The sources of funds and their proportion of the whole are shown in Figure 1.

Figure 1

STATE LAWMAKERS CONTROL 82% OF SCHOOL FUNDING IN CALIFORNIA

The sources of funds for California public schools and their estimated proportion of the whole for 1998-99

State funds **$21.9 billion**
mostly from California sales and income taxes

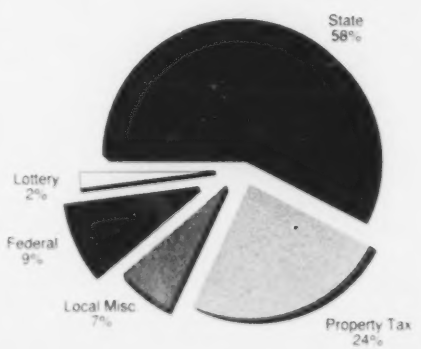
Local property taxes **$9.2 billion**
which state lawmakers allocate to schools (cities, counties, and other agencies also receive some local property tax revenues)

Local miscellaneous revenues **$2.6 billion**
includes community contributions, interest income, developer fees, and revenues from local parcel tax elections

Federal government **$3.5 billion**
overwhelmingly earmarked for special purposes

Lottery **$0.7 billion**
projected at about $120 per student (ADA), to be used for instructional programs

Total estimated revenues for 1998-99 **$37.9 billion**



Projected California public school enrollment for 1998-99 — 5.7 million students

Data: Office of the Legislative Analyst EdSource 10/98

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How the funds are allocated by state lawmakers

The system for sharing money among school districts and county offices of education becomes more complicated every year. In general, the funds are divided between "revenue limit" funds for general purpose support and "categorical aid" allocated for special purposes. The latter includes such things as class size reduction, desegregation, instructional materials, and services for students with special needs.

General purpose revenue limits

California school districts receive general purpose money based on a per-pupil revenue limit. Each district has its own revenue limit, which is set annually using specific formulas determined by the state. In this year's budget, the state provided an average Cost-of-Living Adjustment or COLA of 3.95% for school district revenue limits. The California Department of Education (CDE) estimates that the average increase in revenue limit per student will be $156 for elementary districts, $188 for high school districts, and $163 for unified districts.

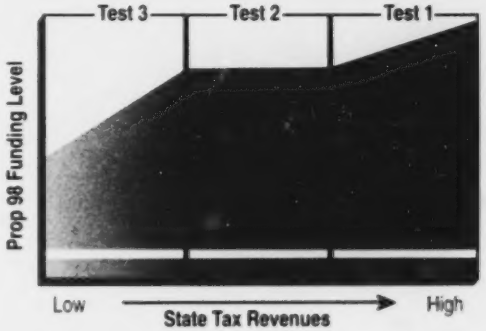
The revenue limit is technically paid per pupil, based on a school district's Average Daily Attendance (ADA). This is calculated by taking the cumulative daily student attendance and dividing it by 180 school days. Starting in 1998-99, schools must change the way they calculate their ADA. They will no longer count excused student absences as part of their attendance figure. This change has created extra financial complexity this year and is explained more thoroughly later in this report.

For most districts the revenue limit is paid from local property taxes to which are added state funds to bring the total up to the

HOW CALIFORNIA'S SCHOOL FINANCE SYSTEM WORKS

California's school finance system is largely controlled by the state Legislature and the Governor. Local school boards have no independent authority to raise taxes, and voters in a school district have almost no say over how much schools have to spend. Further, many school expenditures are fixed because of contracts with employees or regulations in the state's lengthy Education and Government Codes. It is within these constraints that school district officials set priorities and make decisions about their students' education.

Proposition 98 Guarantees
A Minimum Level of Funding for Schools



When voters approved Proposition 98 as an amendment to the California Constitution in 1988, they guaranteed K-14 education a minimum amount of tax revenue each year. The calculation of that guaranteed amount is largely based on the health of the state's economy.

The illustration provides a simplified explanation of how this constitutional amendment works. The "tests" depend on state revenues, local property taxes for K-14 education, enrollment growth, personal income, and the state's population. Test 1 applies in very high revenue years, when the Proposition 98 guarantee is at least 34.6% of the state General Fund tax revenues. Test 2 is the same amount for education as in the previous year plus enrollment growth and an inflation adjustment equal to the change in per capita personal income in the state. Test 3 is for much lower revenue years, when the growth is the change in state tax revenues plus 1/2%. The difference between this amount and what Test 2 would have yielded is to be restored to education funding in years of higher state tax revenue growth.

For 1998-99, California is expected to be in the Test 2 range. For the first time since Proposition 98 was enacted, the Legislature decided to fund K-12 education above the constitutional minimum. They sent to Governor Wilson a budget that was $736 million more than the Proposition 98 guarantee. When the budget was finally approved, schools received a total of $600 million above the Proposition 98 guarantee.

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required level. In about 50 districts, called "basic aid" districts, local property taxes exceed the total revenue limit amount. In this situation, the district keeps the extra money and in addition receives $120 per student in constitutionally guaranteed basic aid from the state.

When less money is budgeted than is needed to fund the legally calculated revenue limits, a "deficit factor" is created. This factor continues at the same level as last year, approximately 9%. Thus, districts will receive about 91 cents for every dollar they are actually due.

Categorical aid for restricted uses

Over one-third of state funding in the 1998-99 education budget is earmarked for specific purposes. Categorical aid is the catch-all term used for this targeted revenue. Some categorical aid is driven by court decisions, and some reflects legislative and/or gubernatorial priorities. State and federal funds support over 80 different categorical programs. Figure 5 (on page 9) shows the largest ones. For this sizable portion of their revenues, school districts will receive a COLA of just 2.18%. They will also receive funding to support an estimated 1.8% increase in student population.

In recent years, the proportion of state money that comes to schools with "strings attached" has grown more rapidly than general purpose support. Figure 2 illustrates the extent to which this shift has occurred in the state. Individual districts have been affected in different ways by this shift.

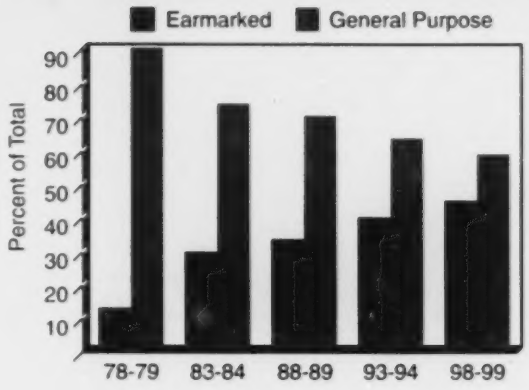
The state distributes categorical money in a variety of ways. It can be given as an across-the-board grant to all schools, as reimbursement for a service provided to students, or as an incentive to encourage a particular activity. Most categorical aid is accompanied by some (or many) conditions about how it may be used. School officials often have to meet special reporting, accounting, and procedural requirements. For some programs they must include specific groups such as parents and teachers in decision making about the use of the funds.

The amount of categorical aid each district receives depends heavily on the nature of its student population and to some degree on the priorities of school officials. Districts with many students who need to learn English, with low-income families, or with disproportionately low-achieving students generally qualify for more categorical aid. In recent years, districts serving kindergarten through third-grade students received a substantial boost in categorical funds thanks to class size reduction and the other elements of California's K-3 literacy program.

About a quarter of categorical funding has been combined into a single budget line item called the mega-item. The mega-item covers over 30 different categorical programs. For 1998-99, the total appropriation is about $2.4 billion. That reflects some shifts in program, funding for enrollment growth, and a 2.18% COLA.

Figure 2

MORE FUNDS GO TO SCHOOLS WITH STRINGS ATTACHED



In 1978-79 categorical and other earmarked funds represented 11% of the budget compared to 43% this year.

Data: Governor's Budget, various years

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Within the mega-item, districts have some flexibility over how they spend the funds allotted. A district may transfer up to 15% of the money in a mega-item program to one or more others, up to a maximum 20% increase for any single program. Funds may also go to Healthy Start and Conflict Resolution programs, both of which are outside the mega-item.

Nearly half of funding increases only available for specific programs

In developing the 1998-99 education budget, lawmakers had to decide how to allocate about $2.2 billion in additional funds. They also had to distribute $640 million in "settle-up funds" from previous school years, for a total of about $2.8 billion. According to LAO calculations, they allotted $1.5 billion for inflation and enrollment growth.

The remainder, about $1.3 billion, went to either expand existing programs or create new ones, a clear reflection of lawmakers' newest and highest priorities. The messages were numerous.

- Teacher professional development may get a higher priority in the future, but this year it took a back seat to increasing students' time in school.
- Schools must develop interventions to improve the performance of non-achieving students, or else retain those students, instead of using "social promotion" to move them along in school.

- The commitment to class size reduction remains and the Legislature will continue to explore ways to expand it.
- School districts are expected to invest more in instructional and library materials.
- School safety and student support programs are important and new approaches are needed.
- More state money is available for facilities maintenance as long as school districts also invest more.

Figure 3

SCHOOL DISTRICTS RECEIVE DIFFERING INFLATION ADJUSTMENTS

School districts this year had to get out their calculators just to determine the percentage increase they would receive in existing programs. Through a series of political maneuvers, the Legislature and Governor arrived at two different COLA figures in the final budget. They provided a 3.95% increase in general purpose revenue limit funds, and only a 2.18% increase in most categorical funds. The exceptions to this were class size reduction, summer school, and community day school programs, for which districts will receive the full 3.95% COLA.

School districts vary substantially in the proportion of their revenues that are for general purposes and the proportion earmarked for specific functions or programs. Because the cost-of-living increases for these two types of revenue differ in the 1998-99 budget, the overall inflation increase will be different district to district. Here are some examples:

Proportion of budget	Description	Overall inflation adjustment
50% general purpose 50% categorical	A district with many characteristics or students qualifying for categorical funds, typically urban and large	3.065%
67% general purpose 33% categorical	An average California school district	3.366%
85% general purpose 15% categorical	A district qualifying for very few categorical programs, often small, rural or suburban, with few students identified as "at risk"	3.685%

No California district will receive an overall inflation adjustment equal to either the revenue limit COLA of 3.95% or the categorical COLA of 2.18%.

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Major changes in law affecting local school finance and operations

Some of the biggest impacts for school districts this year stem less from the amount of money allocated than from changes in state laws and regulations. In areas ranging from counting students to staff development, schools must adapt to some sweeping changes.

ADA accounting – change in the system for counting students

Net effect on state allocations: none

Impacts for individual school districts: the calculated per-pupil revenue limit amount will change, perhaps dramatically in some districts. Schools will no longer benefit financially from closely tracking excused student absences and must instead look at strategies for encouraging higher attendance overall.

For decades, schools in California have received much of their funding based on their Average Daily Attendance (ADA). Until this school year, ADA was equal to the number of students in school plus those students who missed school but had a permissible excuse such as an illness, a doctor's appointment, or a death in the family. Beginning this year, schools will now calculate their ADA by counting only the students who are actually at school each day.

This redefinition will make California's ADA calculations more comparable to the way other states track students. It will also simplify the annual audit of school district finances, but will have a number of other effects.

The first and most obvious impact is that every school district's number of students counted as ADA will be smaller. Aware of this, state leaders attempted to recalculate or "re-bench" the per-pupil allocations to yield a higher amount per ADA. The goal was to assure that districts did not lose overall. (See Figure 4 for an example.)

The allocations to districts for many categorical programs, on the other hand, were to be recalculated based on the state's 1997-98 average attendance rate without excused absences. Initial estimates from the California Department of Education (CDE) and Department of Finance put that attendance rate at approximately 95.5%. Districts that had higher than average excused absences may lose some funding, while those with lower excused absences may gain.

Figure 4

REQUIRED ADJUSTMENTS TO ADA AND REVENUE LIMIT BALANCE OUT

If, in School District XYZ, last year:

ADA (with 4.5% excused absences) =	2,000
Revenue limit per ADA =	x $3,500
Total revenue limit funds =	$7,000,000

In School District XYZ this year:

New ADA (without excused absences) =	1,910
New revenue limit per ADA =	x $3,665
Total revenue limit funds =	$7,000,000

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As a result, the effect on individual school districts could vary somewhat immediately and even more over time. To begin with, districts with high numbers of excused absences will have the largest decrease in the number of students included in their ADA count. Conversely, districts that reported fewer excused absences will see less change. Starting this year, all districts can maximize the dollars they receive by making sure students are in school — not just making sure absences are excused. In particular, districts with high absence rates have the greatest potential to increase their actual ADA count, and therefore their revenues, if they can improve attendance rates.

Districts face the challenge of increasing attendance while still making sure that students who are ill stay home. They may want to encourage a student with an extended illness or planned absence to work under an independent study plan and therefore be counted. They will also probably encourage parents to have students attend even a partial day of school when they have appointments so their attendance can be counted.

Mandatory 180-day student year and reduced state subsidy of staff development

Net effect on state allocations: a mandatory lengthening of the student school year to 180 days removed districts' ability to use about $1 billion (estimated by School Services of California, Inc.) for staff development support; the Legislature added about $195 million for a new voluntary staff development program.

Impacts for individual school districts:

- *students will attend school 180 days a year (some waivers for 1998-99 only)*
- *the 51 California school districts that previously offered 180 student days could access additional staff development funds*
- *those districts that previously took advantage of the state program and offered four or more days of staff development within the 180-day school year will generally experience a net loss in state funding for staff development.*

In last-minute budget negotiations between Governor Wilson and the state's four top legislators (the Republican and Democratic leaders of the Assembly and State Senate), the system for state funding of professional development for educators was fundamentally changed. Since 1983, schools could use up to eight days out of the regular 180-day school year for staff development instead of student instruction. In 1997-98, the state "bought back" one of these days with a $50 million allocation. In 1998-99, the option of using days within the school year for staff development was eliminated entirely and the following changes were made.

- School districts must offer the full 180 days of student instruction (or the equivalent in instructional minutes in multi-track year-round schools).
- They can participate in a voluntary program to receive funding for up to three full days of staff development in addition to the 180-day school year (see the box on page 6).
- Funding for this professional development program will be based on the number of classroom teachers (and classified instructional aides) who attend a full day. Districts must document actual attendance at staff development sessions to receive these funds.

This change in state law did not occur until nearly mid-August, after most districts had set their staff development calendars for the coming year, and many had even conducted some sessions. In recognition of this, the

STUDENTS ARE COUNTED IN TWO DIFFERENT WAYS IN CALIFORNIA

Enrollment

As a part of the California Basic Education Data System (CBEDS), information is gathered on a single day each October about all the students, their demographic characteristics, their teachers, and their classes.

This count is a snapshot at a single moment in time. It is used for some categorical programs and estimates, such as for facility needs.

Average Daily Attendance (ADA)

Each day during the school year, schools count all students attending. These numbers are averaged over the year to produce the district's ADA. In the past, students with valid excuses to miss school, such as illnesses, have been included in the total. Beginning in 1998-99, ADA only includes those students actually at school. However, districts must continue to keep track of their students and excused absences because of compulsory attendance requirements.

This count recognizes that students move into and out of school districts constantly, and the average more accurately captures the number of students a school district is educating than the state's once-a-year enrollment figure.

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law allowed liberal approval of waivers for the 180 student day requirement for the 1998-99 school year only. After this year, the law is expected to be strictly enforced.

As part of implementing this change in state law, districts must review their collective bargaining agreements and if necessary negotiate revisions. Many contracts limit the total hours of student contact for teachers and this new statute may affect that. The collective bargaining law requires that districts and teacher unions negotiate both the length of the school day and the school year. This must be done within the state's legal minimums for student instructional days and instructional minutes. Also subject to collective bargaining are the issues of whether staff development days will be voluntary or mandatory, and what compensation teachers and aides will receive for attending.

One obvious goal of this legislation was to increase the time students spend in school. At 172 days, California previously had the lowest number of required days of student instruction in the country. The objectives regarding professional development were less clear, and the level of funding was a disappointment to those who believe that improving educators' abilities is critical to school improvement, particularly at this time. The recent adoption of new standards and textbooks — and increased expectations for student performance and school accountability — have increased school districts' need to see that teachers are well trained. The language in the new law states legislative intent to increase the funding for the voluntary program in future years so that additional days can be offered. However, it will be up to a newly-elected Governor and Legislature to fulfill that obligation.

COMPONENTS OF CALIFORNIA'S NEW VOLUNTARY STAFF DEVELOPMENT PROGRAM FOR 1998-99

For teachers

Districts can qualify for funding for up to three days of staff development for teachers in addition to the 180-day student year, as follows:

Districts receive $270 per full day, per participant (defined as "classroom teachers" only).

No partial-day attendance will be counted.

The "full day" must represent as many hours as the regular instructional day, but can be broken up into more than one session. Only multi-track year-round schools can offer sessions on school days using a minimum schedule.

For instructional aides

Funding was also guaranteed for one day of professional development for selected classified employees, following the same basic principles as the teacher days.

The funding is $140 per day per participant (defined as "classroom instructional aides" or "certificated teaching assistants" only). Reimbursement for one to two additional days for this group may be available if statewide participation in the program as a whole is below the budgeted amount.

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Special Education — implementation of new funding model

Net effect on state allocations: additional $50.8 million for equalization between Special Education Local Planning Areas (SELPAs) and $15.8 million to provide extra funding to SELPAs with a high incidence of certain student disabilities. (These augmentations are in addition to annual increases for COLA and growth.)

Impacts for individual Special Education Local Planning Areas (SELPAs): the effect on how much a SELPA receives will vary. Those SELPAs which previously received a lower level of funding or with a high incidence of certain disabilities could benefit. Those that do not fit in either category may see little change in Special Education funding. Each SELPA will now decide on its own how to allocate funds.

The state and federal laws regarding Special Education have been revised significantly in recent years, and many of the changes have involved how the money is distributed. These reforms were attempts to address inequities in funding from one school district to another, to simplify the system, and to remove any unintended incentives schools had to place students in certain Special Education programs.

What did not change generally is the allocation of these funds through Special Education Local Planning Areas (SELPAs), which usually do not correspond to school district jurisdictions. Some SELPAs encompass an entire county, some are only part of a single school district, some are made up of multiple small districts.

This school year all SELPAs convert to the state's new finance system for Special Education. The basic change is from program-based funding to pupil-based funding. Previously, schools received Special Education support based on the type of programs they provided and the number of students identified to participate in those programs. This year they switch to payment based on the total student population of each SELPA. The plan is to provide supplemental funding to SELPAs with an unusually high number of students

who have severe disabilities that are more expensive to accommodate.

For school officials, the new model is much more straightforward. The challenges — and the opportunities — lie in additional latitude regarding how the funds are spent locally. Each SELPA must develop a new local plan for delivering Special Education services. And whereas these plans were previously based on the state program model and reflected little local autonomy, now the plans can be much more flexible. This change is more complex for SELPAs that serve multiple school districts. In the short term, school officials will struggle with this new funding approach and with new Special Education laws that call for operational changes as well.

Still pending is the possibility of more changes in federal law. These could result in new regulations related to compliance and financial obligations for certain categories of students.

Intervention program and retention replace "social promotion"

Net effect on state allocations: $105 million for intervention programs

Impacts for individual school districts: districts will receive some additional money to supplement remedial summer school and other intervention programs. Districts may lose some flexibility over their use of other summer school funds and the type of programs they offer.

In California, social promotion — the practice of moving students to the next grade level without regard to their academic performance — will no longer be accepted as a strategy for dealing with low-achieving students. That was the message state lawmakers sent to schools in August.

Under the new law, school district governing boards and county boards of education must approve a policy regarding the promotion and retention of students. State law already requires that students pass district proficiency tests to graduate from high school. Now schools must also identify students who are at risk of being retained in second, third, and fourth grades; at the end of the intermediate grades/beginning of middle school; and at the end of middle school/beginning of high school.

Schools may use scores from the state's Standardized Testing and Reporting (STAR) program or other indicators such as grades to identify students at risk of being retained. The bill also requires the State Board of Education (SBE) to adopt performance levels for students' STAR scores in reading, English/language arts, and mathematics for each grade level. This is only after the STAR tests are aligned to the state's academic standards.

School districts must provide extra services to students who do not meet the district proficiencies. They can use many strategies and programs, including summer school, after-school, Saturday, or intersession instruction. Parents must be notified if their student is at risk for retention, must have an opportunity to consult with their child's teacher, and can decline to have their student in any intervention program.

Students who, even after these interventions, fail to meet the district measures of proficiency must by law be retained, with a few exceptions. Parents have the right to appeal retention through a district-determined process. Teachers may determine that retention is not appropriate for an individual student, but must place in writing both their reasoning and recommendations for other interventions.

For 1998-99, the funding to implement this program totals $105 million, with $30 million of it specifically targeted at grades 7-9. In grades 2-6, the maximum amount a district could receive will be based on providing 120 hours of extra instruction to up to 10% of students. In grades 7-12, the maximum would be based on serving 7% of students. Any money left over could be used to serve additional seventh to 12th grade students, up to a 10% cap.

The late approval of this legislation at the end of August left many unanswered questions. How, for example, will districts pay for the required inter-

IMPLEMENTING PROPOSITION 227 — A BIG CHALLENGE WITH SMALL BUDGETARY EFFECTS

Following the June 1998 voter approval of Proposition 227, known as the English For The Children initiative, school districts had less than two months to implement a new mandate for teaching English language learners using a single year of "sheltered English immersion." While this had few budgetary consequences, it was a focus of school district activity as the year began and school officials found themselves rushing to respond. Court challenges and the mid-summer arrival of regulations from the State Board of Education (SBE) kept school districts guessing right up to the August 1 deadline for compliance.

As school began, school officials had to develop procedures for informing parents about their options and securing parent waivers if parents wanted their children in bilingual classes. They had to deal with ambiguities in the new law's definitions and requirements. And they faced the prospect of reconfiguring classrooms based on the legal requirement that parent waiver requests must be honored. The state budget contains a $50 million one-time allocation to help with the transition process.

During the 1998-99 school year, school districts, school sites, and communities will be shaking out the new system. Among other things, they must create programs for teaching English to the parents of their Limited English Proficient students. Proposition 227 mandated that $50 million be set aside for this purpose. The regulations regarding distribution of these funds will be determined by the SBE. Schools must also begin planning for year two and clarifying how placement decisions will be made. Ideally they will also have the time and resources necessary to thoughtfully evaluate their programs for students learning English and craft the approaches that work best within the confines of this new state law.

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CDE LOSES OVER A QUARTER OF ITS BUDGET

A surprise in the 1998-99 budget was Governor Wilson's line-item veto of over $9 million out of the $35.9 million the Legislature allotted to the California Department of Education (CDE). The Governor set aside the bulk of this money in order to force review of the department's expenditures for legal counsel. The reduction, however, affected many areas of the department's operation, with no resolution possible until January 1999 when a new Legislature is seated.

ventions if their students at risk exceed the 10% funding cap? Do these interventions fall under the mantle of state mandates for which the state must reimburse schools? What guidelines must districts follow if they use their own measure of proficiency instead of the STAR test results? And what will be the interim method for determining proficiency until the STAR tests are aligned with standards and the SBE sets performance levels?

Major categorical programs — what's new, what's changed

Some of the state's existing categorical programs received major funding boosts, and a few new programs were created as well. The effect of these changes varies by school district, depending on the population each serves and the programs each offers.

As noted earlier, $640 million of the categorical funds schools received were "one-time moneys" owed from previous budget years under Proposition 98. School districts should only use these revenues for expenditures that create no long-term obligations. The money also comes with a variety of other strings attached.

Class Size Reduction (CSR)

Aside from a few operational changes, lawmakers left the K-3 class size reduction program alone. A 3.95% COLA raises the allocation to $832 per pupil participating in a full-day program and $416 for a half day. A new audit procedure goes into effect this year, and districts can no longer qualify for funding by placing 40 pupils and two teachers in a regular-size classroom. The Legislature passed and Governor Wilson vetoed a bill loosening the 20-to-1 maximum to an average of 22 students per teacher in the smallest districts (those with three or fewer classes at any one grade level).

The Legislature's fervor regarding smaller class sizes turned this year to high schools. It sent the Governor a $90 million enhancement to the state's existing $34 million high school class size reduction program. The Governor reduced the increase to $44 million, saying that schools would most likely not implement the program until the second semester. The funding works out to a total of over $78 million at a rate of $135 per pupil per course. To qualify, high schools must offer one or two ninth grade courses with an average of 20 students per teacher, with a maximum of 22 per participating class. One of the courses must be English, and the other can be mathematics, science, or social studies. Special Education classes and Necessary Small Schools are excluded.

Instructional and library materials

Lawmakers expect schools to make a substantial new investment in instructional and library materials this year. Following is the total allocated in various areas and the approximate per-pupil amount districts will receive.

- Schools can receive funding through the existing Instructional Materials Fund. This totals about $170 million, $28 per student in grades K-8 and $19 per student in grades 9-12.
- A $250 million augmentation will net schools an additional $44 per student in 1998-99, based on last year's K-12 enrollment. This money must only be spent for books and related materials that are aligned to the state's new core academic standards in language arts, mathematics, science, and social science. These materials are not yet approved and available for purchase, and may not be during this school year. This program was planned by the Legislature as a $1 billion, four-year effort.
- Districts will also receive a one-time stipend of $71.5 million for science laboratories and materials, about $13 per ADA.
- Finally, the state has allocated $158.5 million in on-going funding for school libraries. This $28.50 per ADA entitlement can be used for books, periodicals, equipment, and Internet technology. To qualify, the local governing board must adopt a districtwide library plan.

This substantial investment is in part a response to California's well-documented position at the bottom of all states in terms of library resources. And it will certainly benefit students in districts that have not kept up their instructional materials. It was crafted, however, based on the assumption that all districts fit that description. The law calls for the new moneys to supplement rather than supplant past expenditures made with state dollars. Districts that invested in the past by using general purpose revenues may either end up purchasing materials they do not need or passing up the additional support altogether.

None of the funding can be used to pay for librarians or for additional staff time needed to evaluate, order, and distribute the new materials.

Figure 5

STATE AND FEDERAL EDUCATION MONEY EARMARKED FOR SPECIAL PURPOSES

State Programs	1997-98 Millions	1998-99 Millions
Special Education	$ 2,086.718	$ 2,111.920
Class Size Reduction – Grades K-3	1,488.535	1,545.530
Child Development, Preschool	621.070	793.638
Desegregation * (Court Ordered $490.708, Voluntary $142.011)	604.659	632.719
Adult Education & CalWorks	515.070	529.605
Transportation (including Special Education) *	499.008	521.091
EIA (Economic Impact Aid) *	385.389	400.899
SIP (School Improvement Program) *	379.164	394.424
ROC/P (Regional Occupational Centers/Programs)	292.587	309.369
Instructional Materials – Mathematics		250.000
Staff Development Day Buyout	50.000	195.000
Summer School	164.939	180.809
Instructional Materials – Grades K-8 & 9-12 *	165.321	172.100
Deferred Maintenance	135.000	165.000
School Library Materials	0.000	158.500
Digital High School	100.000	136.000
Mentor Teacher *	77.452	80.569
Class Size Reduction – 9th Grade *	34.020	79.840
Child Nutrition *	72.621	75.604
Year-Round School Incentives *	69.799	71.738
Beginning Teacher *	17.916	67.737
Goals 2000	81.900	57.691
Pupil Testing	59.870	55.969
Educational Technology *	54.234	55.376
GATE (Gifted and Talented Education) *	53.388	55.537
Healthy Start	49.000	49.000
Technology Literacy Challenge Grant	19.624	45.204
Tobacco Use Prevention Program	34.437	32.353
Miller-Unruh Reading *	30.575	31.806
School/Law Enforcement	4.481	26.398
Community Day Schools	30.000	20.436
High Risk Youth & Public Safety	3.600	20.600

State Programs (continued)	1997-98 Millions	1998-99 Millions
School Dev. Plans & Res. Cons.*	18.323	19.061
Dropout Prevention Program *	18.193	18.925
Tenth Grade Counseling *	14.022	14.587
Partnership Academies	11.434	13.964
Apprentice Program	8.256	8.256
Opportunity Programs *	7.759	8.072
Vocational Education & Organizations	7.584	7.692
Demonstration Programs Reading/Math *	5.679	5.907
Standardized Account Code	16.969	5.500
Foster Youth Programs *	1.485	4.544
Administrator Training *	4.329	4.503
Specialized Secondary School Programs *	4.213	4.382
Agriculture Vocational Education *	3.779	3.931
Bus Replacement *	3.731	3.881
Indian Education Programs/Centers *	5.244	3.880
County Fiscal Oversight	3.630	3.630

Plus other programs under $3.5 million

* Programs included in the Mega-item

Major Federal Programs	1997-98 Millions	1998-99 Millions
Child Nutrition	$ 1,182.766	$ 1,215.106
Title I [formerly Chapter 1] (ECIA, $844.669, Migrant Education, $107.448)	944.128	952.117
Child Development	353.410	455.252
Special Education	329.040	398.801
Vocational Education	119.769	119.613
Drug Free Schools	43.721	45.494
Adult Education	38.317	39.869
Emergency Immigrant Education	32.576	39.174
Title VI [formerly Chapter 2]	30.811	35.461
Title II ESEA (Professional Development)	27.016	31.873

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Districts will have to use their general purpose money to support the personnel necessary to manage this extensive materials acquisition.

School facilities

School districts will have the opportunity to put $145 million in state funds into maintenance they have deferred. In addition, $20 million is earmarked for a "high priority critical needs" fund. The State Allocation Board will distribute these one-time moneys for safety-oriented projects such as underground tank removals and roof replacements. The balance of the Deferred Maintenance funds are intended as on-going funding available to match district investments.

Deferred maintenance is just part of an overall school facilities need that is estimated to be in the billions of dollars. After nearly a year of debate, the Legislature and Governor did act at the last moment to put a school facilities bond measure on this year's November ballot. If approved, the measure would provide $6.7 billion for K-12 school facilities including money for new facilities, renovation or modernization of existing buildings, and new classrooms needed because of class size reduction.

Child care and pre-school

This year's $291.4 million addition to state and federal grants for child care and pre-school programs may be most significant for the policy trend it signals. With this additional funding the program has nearly doubled, growing from $629 million to $1.25 billion in just two years. Some of this funding is within California's Proposition 98 guarantee, but much of it comes from federal sources as well.

School districts can expect to be called on by the state and federal governments to do even more in these two areas in years to come. The question is whether the Proposition 98 minimum funding level will be supplemented in order to provide additional services outside of the normal school day and to young children not now counted in the K-12 population? Or will schools have to do more with relatively the same amount?

Technology

The Legislature continued its commitment to the Digital High School program with a $136 million allocation. In year two of the program a second 20% of the state's high schools were randomly selected to apply for the program. Chosen through a lottery, the schools must match the state funds with a local contribution in order to participate.

Teacher recruitment, credentialing, and professional development

The Legislature put about $160 million into a variety of programs intended to improve both the supply and qualifications of California's teaching force. Much of the implementing legislation was based on recommendations from a broadly representative panel which worked for two years to craft reforms related to teacher recruitment, teacher preparation programs, beginning teacher training, and teaching standards.

A large part of the new funding supports extra help for new graduates as they begin their careers and attempt to qualify as fully certificated teachers. It includes a $49 million augmentation of the Beginning Teacher Support and Assessment (BTSA) program, bringing the program's total budget to $68 million. Another $11 million is incentive funding to encourage the development of alternative credentialing programs, such as intern programs run by school districts. This was rounded out with over $12 million for teacher recruitment efforts.

The Legislature also provided about $88 million for professional development programs. Perhaps most notable in terms of a new policy direction was $5 million for merit awards of $10,000 each to teachers who attain National Board certification.

Safety and student support services

Significant new funding of $50 million for after-school programs will be available to schools that serve students in grades K-9 (high schools are excluded). The program will be funded at $5 per pupil, with a maximum of $75,000 per elementary school and $100,000 per junior high or middle school. Preference will be given to sites with a high percentage of students who qualify for free or reduced lunch.

Funded programs must operate for a minimum of three hours and until at least 6:00 p.m. They are expected to offer students academic assistance as well as recreational and preventive activities such as drug abuse resistance education.

At least partially in response to declining minority enrollments at California's universities since the passage of Proposition 209, the Legislature earmarked nearly $50 million to help low-income students qualify for college admission. Grants for school-based SAT/ACT test preparation programs, reimburse-

ments for low-income students taking Advanced Placement (AP) exams, and expanded university outreach programs were among the things funded.

The Legislature also committed $10 million to grants for school districts and county offices of education under a new School and Community Policing Program. These competitive grants are available to either establish or expand collaborative efforts among schools, law enforcement, and community agencies to reduce crime, gang activity, and drug use by young people. Some local matching funds are required.

School site grants

Every California public school will receive a one-time grant equal to about $30 per 1997-98 ADA (or at least $10,000). This includes charter schools, county offices, adult education, and Regional Occupational Centers. School site councils (or equivalent site-level groups) will decide how to spend these one-time funds, with the school district governing board having final approval. The total state allocation for this purpose is $180 million.

Fiscal and policy issues that await schools in the near future

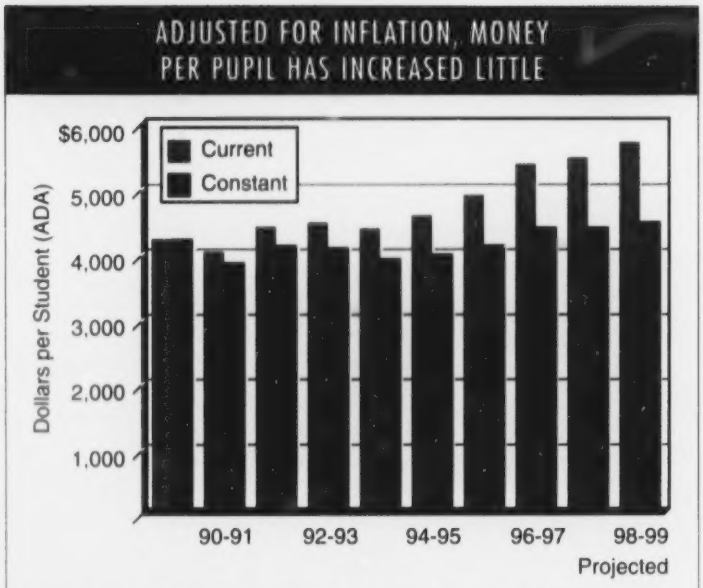
In the midst of implementing major changes this school year, educators need to begin planning for even more in the years to come. Along with some critical financial and operational issues related to teacher salaries and training, facilities continue to loom large as a concern. And a new system of rewards and interventions connected to school district accountability is on the horizon as well.

California will continue to confront a teacher shortage

Put simply, California does not have enough qualified teachers. This fact will keep putting pressure on schools. Along with the new laws passed this year, another strategy under discussion is to improve teacher salaries. A legislative action to increase minimum salary levels for all new teachers met with a veto from Governor Wilson.

Locally, budget pressures will not only come from the need to look at better compensation for teachers overall, but also from the fact that so many districts have new teachers because of class size reduction. A typical district salary schedule provides sizable increases in teacher compensation during the early years of their careers as they gain experience and additional education. This will produce automatic increases in salary costs for which districts must budget.

Figure 6



In the midst of a multitude of new program demands and higher expectations for student performance, California schools have little additional spending power. As this graph shows, when adjusted for inflation*, California's per-pupil expenditure has risen only slightly since 1990.

* As measured by the change in the Implicit Price Deflator for State and Local Governments' Purchase of Goods and Services. Prior years have been adjusted for the change in definition of ADA effective this year.

Data: Office of the Legislative Analyst EdSource 10/98

Teacher professional development needs remain

Most observers agree that California needs to invest more in the on-going professional development of its teachers, particularly those who are newly hired. In some ways this year represented a step backward in terms of the resources most school districts have available for this purpose. Districts can hope that the legislative intent to provide more next year will become reality, but their ability to plan for it will be constrained until state leaders act. They will also find themselves needing to meet the requirements of a new law requiring a mandatory and formal induction period for new teachers. This legislation will have implications for how districts can best use their staff development resources.

What will voters say about Proposition 8?

The multiple and far-reaching provisions contained in this proposition on the November ballot could create major changes for school districts. Of course, they cannot plan for any of them until the voters express their will. If the measure passes, school districts will have to immediately begin changing the way they

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evaluate teachers, make teacher assignments, and involve parents in site decision making. They would also face the long-term prospect of conforming to a new state evaluation system and more stringent credential requirements for teachers.

Will facilities be addressed?

Schools will also have to wait until November 3 to find out what state resources will be available for facilities. Whether Proposition 1A passes or fails, however, one thing is clear. Districts with facility needs must also look to their local communities for support, as the $6.7 billion in this bond falls well short of the state's estimated $20 billion in facilities needs in the next few years.

Finding local funds may become an even bigger challenge, however. If the bond passes, laws will be enacted that limit a local community's ability to assess developer fees. And still on the books is the requirement that two-thirds of voters must approve any local school bond measure.

A new rewards and interventions system is just partially formed

Passed at the eleventh hour, the state's new laws regarding social promotion define how the state expects schools to hold students accountable for their achievement. But how will schools themselves be held accountable? The answer to that question is likely to be taken up again next year by the new Legislature and Governor.

Attention welcome, but last-minute decisions hinder effective implementation

As school officials scrambled to put everything in place for the 1998-99 school year, and respond again this year to a plethora of last-minute changes in state law, many simply shook their heads. This frenzied activity following the late adoption of the state budget has become standard operating procedure. Anything and everything can change in the short time between when school ends in June and when it begins again.

While school officials may be resigned to this, parents and community members often question why students have to be moved or calendars have to be changed after school begins. Educators worry that such chaos at the beginning of school often raises questions about the effectiveness of school district management and may in fact erode public confidence in local schools. They say that effective, thoughtful school management seems nearly impossible when major changes must be implemented so quickly.

Nonetheless, many observers are pleased to see state leaders paying long overdue attention to education issues and working to forge a unified statewide direction for schools. Aligning accountability measures, teacher preparation, and instructional materials to the state's academic standards, for example, represents a significant attempt to craft a more coherent system.

Hopefully, state policymakers will continue to respond to the public's clear opinion that education is a high priority. Ideally they will do so by making thoughtful and well-planned decisions that give educators the time and resources they need to implement them effectively. **VE**

REPORT

School Finance
1998-99

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